FEDERAL RESERVE BANK OF NEW YORK

ANNUAL REPORT 1982

FEDERAL RESERVE BANK OF NEW YORK

April 15, 1983

To the Depository Institutions in the
Second Federal Reserve District

I am pleased to present our sixty-eighth Annual Report, which this year reviews major episodes of financial strain during 1982. These disturbances created periods of difficulty in domestic and international markets. But the financial markets, aided by prompt official actions, proved resilient enough to absorb the problems and, for the most part, to continue functioning effectively. Not all of the basic factors that contributed to these financial strains have been eliminated. However, both private financial institutions and national and international authorities are taking actions to resolve the remaining issues and to lessen the dangers of new disturbances. So it is fair to say that lessons have been learned from 1982's incidents, and they are being applied.

Anthony M. Solomon

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President

Federal Reserve Bank

of New York

SIXTY-EIGHTH
ANNUAL REPORT

For the Year

Ended

December 31, 1982

Second Federal Reserve District

Contents:

A YEAR OF FINANCIAL STRAINS

The past year saw a flurry of disturbances across a wide range of financial markets both in this country and abroad. Those disturbances were not all the same type. Some disrupted markets immediately, while others represented the winding-up of a long process of financial strain. Some happened because even well-run firms in distressed industries were caught up in a difficult economic setting, while others happened chiefly because of management blunders or questionable practices. But together they increased the sense of concern about the financial structure.

Financial flare-ups were to be expected as firms and, in many cases, whole countries struggled to come to grips with the effects of serious economic problems of the preceding years: persistent worldwide inflation and huge increases in the price of oil. Recessions may create financial strains during times of relatively stable prices. But those strains are magnified when a policy of restraint takes hold at the end of a long inflation that has left a legacy of entrenched inflationary expectations in capital markets. As a result, interest rates—especially medium- and long-term rates—decline grudgingly, notwithstanding recession and moderating inflation. Firms are caught in a squeeze between declining sales and continued high labor and interest costs, and their ability to handle debt burdens is weakened. This was the story in 1982, not just in the United States, but abroad as well where corporate financial distress was worse than in this country.

Globally, the world recession, combined with high real interest rates, hurt the developing countries (LDCs for short) particularly badly, especially those in Latin America. The LDCs had borrowed very heavily in recent years; commercial bank claims on them rose from $114 billion at the end of 1977 to $314 billion by

mid-1982. As the markets for their exports shrank, many LDCs were ill-positioned to service their growing debts and now face difficult adjustments.

Against this background, another theme with serious implications for financial markets was playing out: a boom and bust cycle in oil markets. The sharp run-up in prices after the second oil shock aggravated the financial situation of firms highly dependent on petroleum products or on energy generally. Some industries, such as airlines, were seriously hurt. At the same time, the surge in oil prices created opportunities in other areas, particularly the oil field supply industries, which rode a giant wave of new drilling activity that carried well into 1981. So buyers of oil, both countries and firms, borrowed to cover their higher costs, and sellers or prospective sellers of oil and their suppliers borrowed to finance new investment. But because of the deepening recession, conservation efforts, and rundowns of oil inventories, the petroleum market began weakening, and by 1982 oil prices were easing. This relieved some cost pressures on users of petroleum, but the relief was limited as OPEC (Organization of Petroleum Exporting Countries) members sought to constrain production to prevent significant price weakness. Even so, the shifting balance in the market spelled immediate trouble for many participants in the oil business, and the financial repercussions were felt widely, from Dome Petroleum to Penn Square to Mexico.

Concern with the health of the financial structure peaked last August and September, after the extent of Mexico's liquidity problem became apparent. By then, the financial world had already seen a number of shocks. The market reactions that emerged showed an unusual pattern. Investments in the United States were favored, but not U.S. banking system obligations. As a result, the dollar rose even in the face of declining U.S. interest rates. There was greater than normal interest rate tiering in the domestic certificate of deposit (CD) market. At the same time, the differential between domestic CDs and short-term Treasury bills, the most favored instrument, widened sharply to peak at about 300 basis points. This flight to quality abated, however, after official institutions began playing an active role. By November, rate relationships in these markets had returned to normal.

Reactions in the international loan market were much more severe. Basically, the market was truncated. While industrial country and East Asian borrowers retained access to funds at attractive rates, Eastern European and Latin American borrowers faced enormous difficulties just keeping credit lines open—not to mention raising new funds.

Overall, the financial markets proved resilient enough to absorb most of the shocks they faced last year. However, prompt official actions were necessary to

maintain orderly conditions and to help the markets function effectively. The nature of these official actions varied from problem to problem. In some cases, the Federal Reserve was able to backstop markets by taking timely steps on its own. In other cases, the official response was more complex and involved concerted actions by many central banks and governments, regulatory agencies, and international organizations. But the result was that problems were managed and adverse consequences were contained.

Domestic Highlights

THE GOVERNMENT SECURITIES MARKET. Rarely has the market for U.S. Government securities attracted the attention that it received during 1982. Even before the failure of Drysdale Government Securities, Incorporated (Drysdale) in the spring, huge Federal deficits for fiscal 1982 and beyond were a source of concern not only to market participants but to the general public as well. To finance the deficit and off-budget items, the Treasury borrowed $135 billion in fiscal 1982.

By almost any measure, the Government's funding requirement during last year was at or near record levels. Federal Government borrowing climbed to more than 5 percent of the nation's gross national product and accounted for more than 35 percent of total funds raised in the credit markets. Only once in the past two decades—in the deep recession year of 1975—had Government borrowing reached such high proportions. A record 79 percent of the economy's net private saving was absorbed by Treasury borrowing. These towering financing needs, which will continue for some time, make it especially important that the Government securities market operate effectively. But beyond that, disarray in an important financial market like the Government securities market, if it is not put right, will inevitably cause problems for the implementation of monetary policy. And Government securities dealers, of course, play a crucial role in keeping the market functioning efficiently.

The number of dealers and the volume of activity in the Government securities market have multiplied in recent years against the background of heavy Treasury debt issuance and greatly increased variability in interest rates. Average daily transaction volume during 1982 was over $30 billion, more than triple the trading volume of 1978. Among the new dealer firms entering this more volatile and active

market was Drysdale. While it was not one of the primary dealers that report to the Federal Reserve Bank of New York, Drysdale traded on such a large scale relative to its capital that its failure jeopardized the smooth functioning of the market.

Drysdale was able to do this for two reasons. First, it raised working capital by exploiting a market practice regarding the pricing of repurchase agreements (RPs). Under an RP, securities are sold with an agreement to buy them back at a specified price and future date. The difference between the repurchase price and the original sale price is the interest earned by the investor. Before the Drysdale default, the provider of coupon-bearing securities was generally not paid the value of the interest that had accrued since the last coupon payment. When a payment date was near, the securities were therefore worth more to the buyer than the price realized by the seller. However, when securities are sold outright, accrued interest is paid to the seller. The asymmetry of the pricing conventions for the two types of transactions allowed dealers to raise capital temporarily by buying securities through an RP, without paying for the accrued interest, then selling them outright and realizing the accrued interest. With low coupon securities, the accrued interest did not amount to much, but with high coupon securities it could be substantial.

The second factor enabling Drysdale to trade on a disproportionate scale was its reliance on "blind" brokering, a market practice of not disclosing the names of the participants in a transaction. Blind brokering by banks was a key element in Drysdale's operations. A number of banks had built up very large volumes of business with the firm. Even though they viewed themselves merely as agents between Drysdale and their customers, these banks provided anonymity to Drysdale and thereby enabled it to raise funds on a huge scale. By screening its identity from its counterparties, Drysdale escaped the normal tendency for market participants to limit their volume of financing transactions with any one firm.

Drysdale used its working capital to build up positions on which it apparently incurred sizable trading losses. The extent of these was first revealed on May 17, when the firm failed to meet a liability for interest payments on securities it had borrowed. Market participants became unwilling to deal with Drysdale, and it was forced to stop trading.

The Federal Reserve acted promptly to maintain an orderly market. On the day of the default, Federal Reserve officials met with the commercial banks and the Government securities dealers who were involved in the problem and discussed the possibilities for, and consequences of, alternative courses of action. The major clearing banks involved soon decided to meet the interest payments due on the securities, although reserving judgment on the question of legal liability. Federal

Reserve officials informed commercial banks that the discount window stood ready to assist them in dealing with any unusual liquidity problems. The Federal Reserve also lent out $2 billion worth of securities from its portfolio, on a short-term, fully collateralized basis, so that the positions generated as a result of Drysdale's activities could be unwound in an orderly fashion.

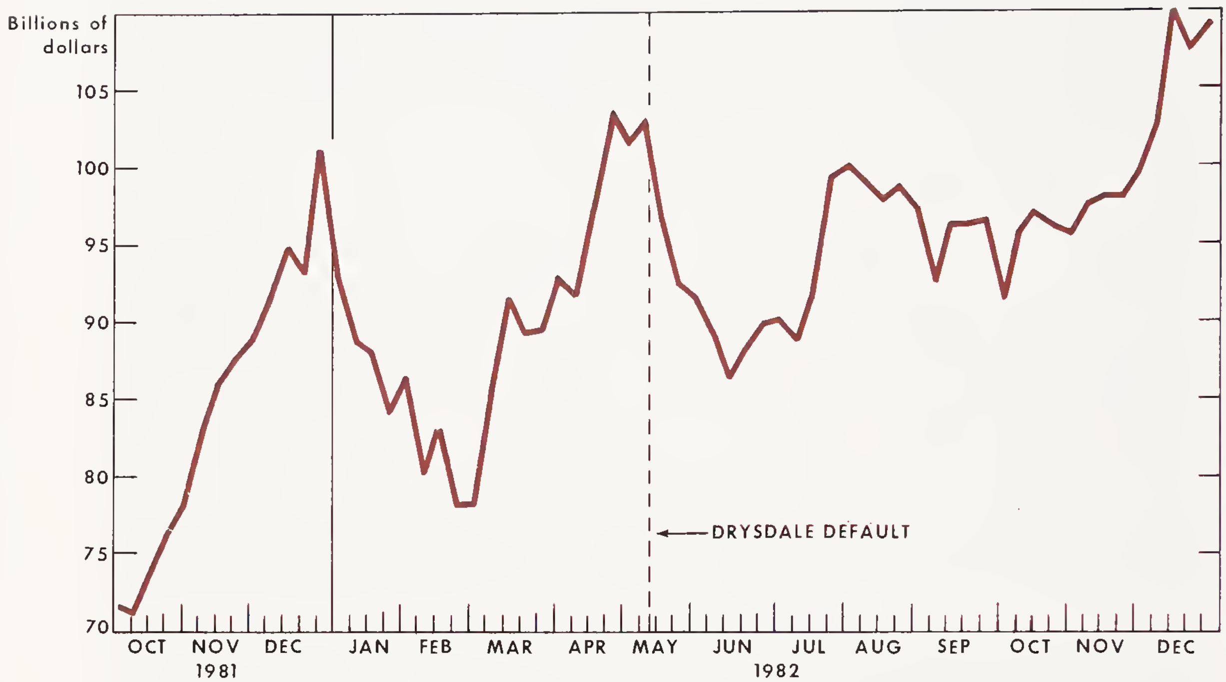
The immediate effect of the Drysdale collapse was a widespread review and tightening of credit procedures. This process contributed to the demise of another dealer firm, Lombard-Wall, Incorporated (Lombard). The Lombard failure, in turn, opened up a new question: the legal status of an RP. During the bankruptcy proceeding, some Lombard customers were unable for a time to liquidate holdings obtained from the firm under RPs, while others were delayed in getting back securities that had been provided to the firm under RP arrangements. These developments had a detrimental effect on confidence in the market for RPs.

RP activity declined and the spread between the overnight dealer loan and RP rates narrowed in the weeks after the Drysdale failure, as market attention to risks increased. Just before the Drysdale default, there were $103 billion in RPs outstanding. During the next five weeks, the volume contracted to $87 billion (Chart 1). Some small firms and lesser known players were forced out of the market and had to rely on bank loans to finance their positions. Despite the increase in bank loans and the reduction of RP volume, the spread between the interest rates on dealer loans and RPs narrowed. Since the dealer loan rate is usually higher than the rate on an RP, the narrowing of the spread suggests that the impact of the supply and demand shifts was swamped by an increase in the perceived riskiness of RPs.

The Federal Reserve sought to call attention to the potential risks involved in RPs even prior to the Drysdale default through a letter addressed to commercial banks. But, after the Drysdale and Lombard failures, further steps to improve trading practices and to strengthen monitoring of market developments were needed. The first necessary change was to alter the market practice of not including accrued interest when valuing RPs. The Federal Reserve changed its own accounting procedures in August, and by early October a marketwide changeover took place. The Federal Reserve also strengthened its procedures for examining the securities activities of banks.

In August, the Federal Reserve Bank of New York appointed a senior officer to head a unit devoted to closer market surveillance. This unit works with the Government securities industry to set up and carry out improved market practices. In addition to reducing the risks involved with RP transactions, the unit's early concerns have been dealer capital adequacy and "when issued" trading—the

Chart 1. **REPURCHASE AGREEMENTS**



Amounts outstanding on Wednesdays.

trading of securities before they are issued. This type of transaction, a form of forward trading without margin requirements, is risky because a firm can build up a sizable exposure by dealing with many counterparties.

THE COMMERCIAL BANKING SYSTEM. The commercial banking system came under strain in 1982, as the recession caused liquidity problems for many business borrowers and led to a surge of business failures (table). Major international borrowers also had severe difficulties servicing bank debt. All in all, however, commercial banks got through the problems of last year in somewhat better shape than during the previous period of major financial strains, the mid-1970s.

Asset quality at the nation's large banks worsened during 1982, with the deterioration being most pronounced among the regional banks. But the situation

did not appear to be so bad as during the 1974-75 recession, when banks encountered problems with real estate investment trusts. Although the ratio of net charge-offs to loans at the twenty-five largest bank holding companies rose to 0.46 percent in 1982 from 0.32 percent in 1981, it was still below the postwar peak of 0.61 percent in 1975. And, for major New York bank holding companies, the comparison was even more favorable—0.36 percent in 1982 versus 0.76 percent in 1975. Based on preliminary data, the ratio of nonperforming assets to total loans at the twenty-five largest bank holding companies was 3.1 percent at the end of 1982, still well below the postwar high of 4.4 percent reached in 1976. But the greatest asset quality imponderables for these banks—some of their loans to developing countries—are not included in nonperforming assets. If the status of most of these international loans does not hold up, the overall asset quality problem for the big banks could reach the proportions of the mid-1970s.

While key profit measures have declined from their 1979 peak, earnings for the banking system as a whole are also holding up better than they did after the 1974-75 recession. The rate of return on equity for all banks averaged 12.4 percent in the first half of 1982, compared with 13.2 percent in 1981 and 11.6 percent in 1975-76. Large banks fared better than small banks last year. Although complete nationwide earnings data for the whole of 1982 are not yet available, the twenty-five largest bank holding companies showed a rate of return on equity of 13.8 percent last year versus 14.8 percent in the previous year. Other preliminary information suggests

BUSINESS FAILURES IN THE UNITED STATES AND SELECTED FOREIGN COUNTRIES
Number of failures

	United States	United Kingdom	Germany	Canada
1973	9,571	2,575	3,996	2,718
1974	10,046	3,720	5,976	2,512
1975	11,629	5,398	6,948	2,863
1976	9,851	5,939	6,804	2,976
1977	7,988	5,831	6,924	4,131
1978	6,720	5,086	6,924	5,511
1979	7,757	4,537	5,484	5,648
1980	11,782	6,890	6,312	6,595
1981	17,217	8,596	8,496	8,055
1982	25,346	12,039	11,916	10,726

that small banks suffered a sharper decline in profit rates in 1982 and may be in even a weaker position than in the mid-1970s.

Conventional measures of the liquidity position of the banking system continued their long-standing trend decline in 1982. But interpreting the true extent of any liquidity deterioration is very difficult because these measures do not take account of significant institutional changes that have worked to improve bank liquidity. For one, deposit deregulation, along with the greater interest rate volatility since the 1970s, has induced banks to improve their asset-liability management techniques. Such improvements allow a bank to operate a given scale of business with lower holdings of liquid assets. Furthermore, the money markets in which banks fund themselves—CDs, Federal funds, Eurodollars, and commercial paper—have become more fully developed during the last decade. The gain in liquidity from the greater depth of these markets is not captured by the simple indicators.

The capital position of the banking industry, however, strengthened significantly in 1982. Fifteen large bank holding companies raised over $3 billion in capital primarily by issuing unconventional capital instruments: $1.7 billion through issues of adjustable-rate perpetual preferred stock and $1.3 billion through issues of mandatory convertible securities—an initial debt obligation that must be converted to equity later. The ratio of primary capital to assets for the twenty-five largest bank holding companies is estimated to have increased from 4.96 percent at the end of 1981 to 5.30 percent at the end of 1982.

While the overall condition of commercial banks thus appeared to be relatively strong compared with the mid-1970s, the number of bank failures during 1982 was about twice as high as in 1976, the previous peak. However, the average size of the banks that failed was smaller during 1982 than in 1976. Of the thirty-four commercial banks insured by the Federal Deposit Insurance Corporation (FDIC) that failed, twenty-four had less than $20 million in deposits and only four had more than $100 million in deposits. In twenty-seven of the thirty-four failures, depositors received full protection since the liabilities of the failed bank were taken over by an assuming bank. In the remaining seven cases, the banks were liquidated.

The most prominent commercial bank to fail during 1982 was Penn Square National of Oklahoma City. Since the mid-1970s that bank had increased its assets some fifteenfold, chiefly through loans to the booming local oil and gas companies. But the growth of its own assets greatly understated Penn Square's involvement in energy-related credits. The bank also originated and then sold about $2 billion in energy loans to other banks. As its credits to marginal businesses became

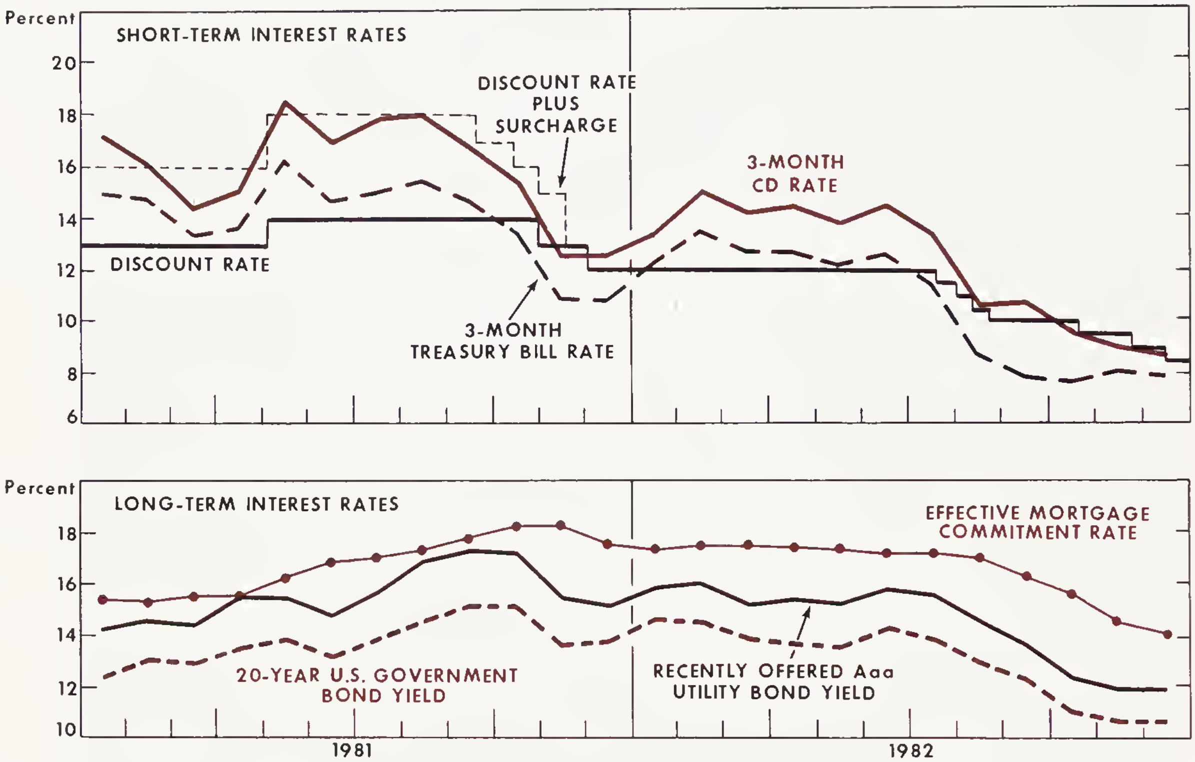
uncollectible with the continued weakening in energy prices and drilling activity, Penn Square's loan losses mounted. The Comptroller of the Currency declared Penn Square insolvent on July 5, and it was placed under FDIC receivership.

With a shortage of time and facing large uncertainties regarding losses on both the actual and off-balance-sheet claims of the bank, the FDIC concluded it could not arrange an assisted merger. Its decision to liquidate the bank resulted in the largest deposit payout since the creation of the FDIC. But close to half of Penn Square's deposits, or about $190 million, were uninsured. This large fraction of uninsured deposits was in part the result of the bank's need to replace funds it had lost during a sharp runoff in demand deposits early in the year. Penn Square increased its reliance on money brokers to sell its CDs, offering above-market rates. Many thrift institutions, attracted by these high yields, invested in Penn Square CDs. To ease the resulting liquidity problems for these institutions, the FDIC issued certificates to the uninsured depositors, representing claims against the bank's assets, and the Federal Reserve accepted these certificates from depository institutions as collateral for discount window borrowings.

The failure of Penn Square was one of a series of incidents that raised questions about the soundness of specific commercial banks. Some banks that were big purchasers of Penn Square loans could issue CDs only at a spread over the rates offered by other major banks. Liquidity in the secondary CD market was impaired, since purchasers were reluctant to take delivery on certain bank names that normally traded on a no-name basis. This rate tiering in the CD market led some banks to rely more heavily on the interbank Eurodeposit market as a source of funds. But by the end of the year tiering was no longer severe.

Fear of illiquidity was one factor behind a general reluctance to hold bank-related instruments—CDs and also commercial paper issued by bank holding companies. Heightened concern over bank credit quality, prompted by the surfacing of the Mexican debt problem, was another major factor. Investor resistance to bank liabilities contributed to a widening of the spread between interest rates on CDs and Treasury bills to over 260 basis points in September. And the volume of outstanding large bank CDs declined during the last third of the year. But, even though the decrease started in September when the CD-Treasury bill rate spread peaked, it is difficult to attribute the runoff solely to reluctance by banks to issue CDs at relatively high rates. Weakening loan demand also reduced the need for CD funding. And, by December, some banks were cutting back on CD issuance in anticipation of, or in response to, big inflows to the new money market deposit accounts. By the end of the year, more normal market conditions were

Chart 2. DOMESTIC INTEREST RATES



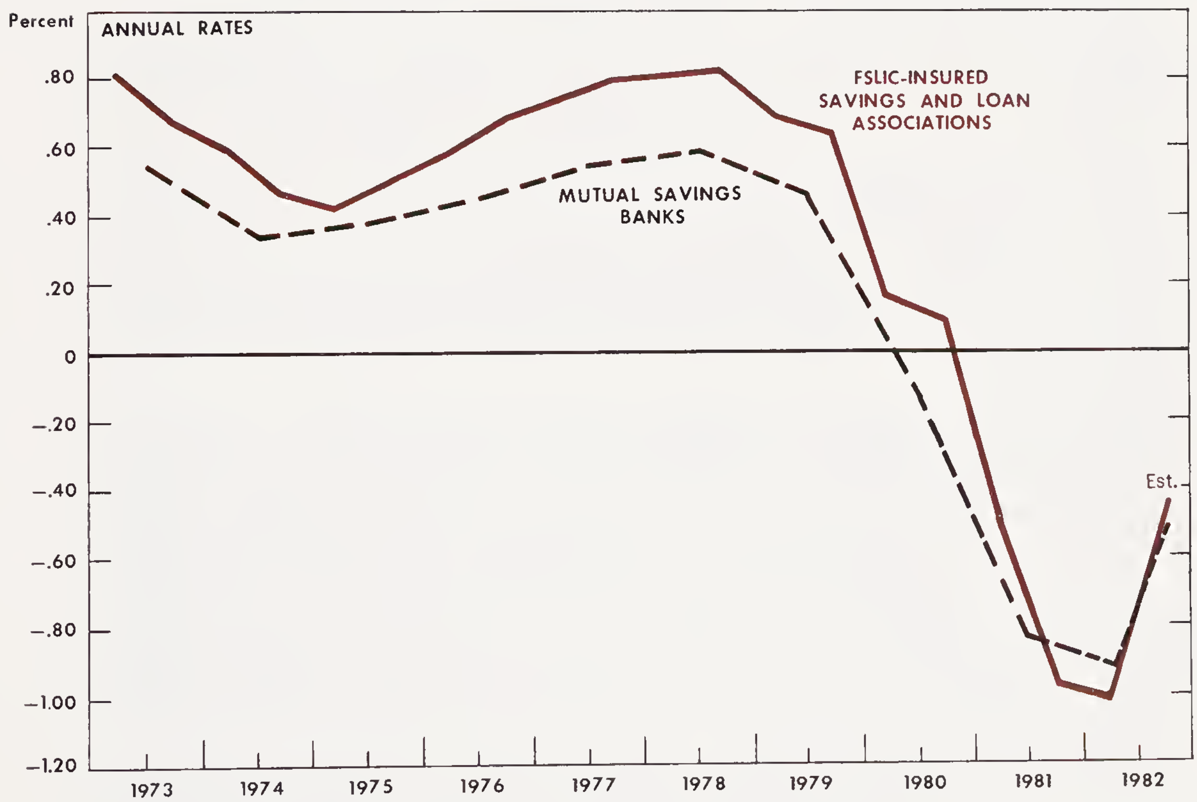
reestablished. The reduced supply of outstanding CDs, the increased supply of Treasury bills, and the diminution of credit-quality concerns led to a narrowing of the CD-Treasury bill rate spread to about 55 basis points in December (Chart 2).

The large losses suffered by banks that purchased loans from Penn Square raises questions about the quality of credit risk assessments in participations. Selling off loans may be a solid, reasonable practice when done under adequate safeguards, but in the case of Penn Square the practice was abused. Buyers did not take enough care in determining the riskiness of the loans purchased. In the aftermath of the Penn Square failure, banks are showing greater concern over the quality of participations accepted and over the internal management mechanisms that back up credit-quality checks.

THE THRIFT INDUSTRY. Throughout most of 1982 the thrift industry continued to suffer from the earnings problem that had plagued it for the past several years. This problem stemmed from the maturity mismatch between thrift assets and liabilities coupled with the deregulation of interest rate ceilings on deposit accounts that together have exposed the industry to a severe squeeze in periods of high interest rates. But this sensitivity to interest rates, which was the source of the industry's problem, also meant that thrift institutions were poised to receive a significant benefit from the fall in short-term interest rates that began in July.

From January through June, while interest rates remained high, both mutual savings banks and savings and loan associations (S&Ls) suffered losses at a record rate (Chart 3). With the bulk of the industry's portfolio locked into long-term, fixed

Chart 3. **PROFIT RATE AT THRIFT INSTITUTIONS**



Profit rate is defined as the ratio of net income to average assets.

rate mortgages made at the relatively low rates that had prevailed in the past, the average yield on assets inched up very slowly in response to the high interest rates. For example, the yield on the mortgage portfolio of S&Ls during the first half was 10.29 percent, an increase of only 108 basis points from two years earlier. The two main channels by which this yield can increase—turning over the mortgage portfolio and investing new deposit flows at the prevailing higher rates—were partially blocked. The mortgage repayment rate for S&Ls was at a relatively low level of about 7 percent during the first half, and their deposit outflows (before the crediting of interest payments) amounted to $8.8 billion through June.

Thrift liabilities are much more interest-rate sensitive than assets because of their short maturity. With about three quarters of S&L deposits paying a market-related interest rate, the average rate paid on deposits responds relatively quickly to changes in market rates. The average rate paid on their deposits was 11.29 percent during the first half of 1982, up from 8.57 percent two years earlier. As the negative spread between rates on assets and liabilities widened, thrift industry losses accelerated.

With the decline in short-term interest rates that started in July, the thrift earnings picture began to turn around. The average contract rate on mortgage loans closed during the second half was 14.29 percent, well above the average yield on the mortgage portfolio. The mortgage repayment rate for S&Ls increased to about 11 percent in the second half, and they received $2.4 billion in net new deposits during that period because of large shifts into the new money market deposit accounts in December. The average money market certificate rate declined to 10.17 percent in the second half from 13.21 percent in the first half. This resulted in a marked slowing in the rate of loss at S&Ls; the picture at mutual savings banks was much the same.

Pressures on the industry, especially during the first half of 1982, resulted in a record number of consolidations of thrift institutions. For the year as a whole, there were forty-four Federal Savings and Loan Insurance Corporation (FSLIC)-assisted mergers, almost twice the number during 1981. Sixteen of these crossed state lines. In addition to the officially assisted cases, 381 other mergers between S&Ls took place last year. Over 200 of these consolidations were voluntary, while the FSLIC supervised the rest. There were eight FDIC-assisted mergers of mutual savings banks during the year.

Besides the aid that was tied in with the mergers, official agencies made substantial loans to the thrift industry through more usual channels. Outstanding advances from the Federal Home Loan Bank system—the first recourse for

assistance to its member thrift institutions—averaged $67.2 billion during 1982, up $9.9 billion from a year earlier. The Federal Reserve plays a secondary role to the Federal Home Loan Banks in support of the industry, and borrowing by thrift institutions at the discount window averaged $96 million during 1982.

But it was clear from the start that an answer to the industry's problem had to go beyond the provision of liquidity. To that end, the Federal Reserve joined with other regulatory agencies to support legislative actions on the thrift problem known as the Regulators' Bill. This bill aimed to give greater flexibility to the FDIC and FSLIC in dealing with problems of depository institutions. It sought to expand the types of financial assistance that the insurers could provide and to give Federal regulators temporary explicit authority to approve both interstate and interindustry mergers in emergency situations. This latter point was of particular concern to the Federal Reserve. Although the Federal Reserve had the authority to sanction acquisitions of thrift institutions by commercial bank holding companies, it preferred to get clarifying legislation from the Congress. Action on the Regulators' Bill was delayed, however, as the Congress considered more comprehensive legislation. But the course of events affecting the thrift industry required a resort to nontraditional mergers, and the Federal Reserve approved two interindustry acquisitions last year, including one by Citicorp, located in New York, of Fidelity Savings and Loan, located in California.

In October, the Congress enacted comprehensive legislation—the Depository Institutions Act of 1982—dealing with the problems of banks and thrift institutions. In addition to the major parts of the Regulators' Bill, the act contains a number of other provisions. A capital infusion program was set up for mortgage lenders with earnings problems and low net worth utilizing income capital certificates—a new equity security that S&Ls may issue to the FSLIC in exchange for cash or securities but that has no fixed maturity and that pays interest only when the issuing institution has positive net income. The asset and liability powers of Federal thrift institutions were broadened. The act also overrode state laws restricting the enforcement of mortgage due-on-sale clauses.

The element of the act that has had the most immediate impact on thrift and financial institutions generally was a directive to the Depository Institutions Deregulation Committee to authorize a new deposit account that would compete with money market mutual funds. The new account requires a minimum average balance of $2,500 and allows six third-party transfers per month, including at most three by check.

The impact of the new money fund account on an institution's earnings largely depends

on two main factors that work in offsetting directions: first, how much new money is attracted to the institution by the account and, second, how much money is shifted to the account from other lower yielding deposits within the institution. In the time between its authorization on December 14, 1982 and mid-March 1983, the new money fund account attracted well over $300 billion to banks and thrift institutions. Close to 20 percent of the inflow is estimated to have come from money market mutual funds, while another 25 percent shifted from existing passbook deposits. Most estimates of the earnings impact of the new account suggest that it will be negative on average for the thrift industry during the first year it is offered. The negative impact is likely to be greatest for mutual savings banks because of their relatively high holdings of passbook deposits.

The International Scene

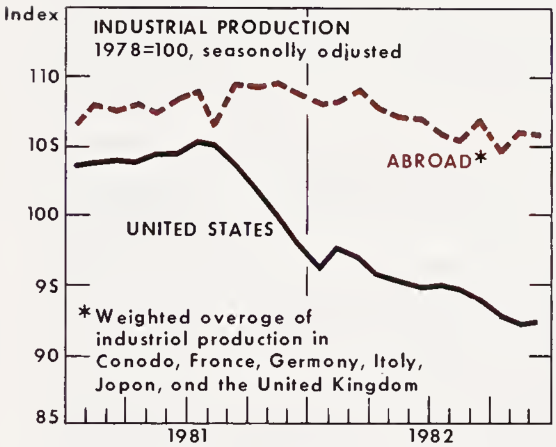
CORPORATE SECTORS. Record numbers of firms were pushed into bankruptcy in major nations abroad in 1982 (table on page 11). The industries hit the hardest—agriculture, airlines, chemicals, steel, and oil—cut across national borders. Most of the failed firms were small, but giant companies suffered financial strains, too. Some of these, like Massey-Ferguson of Canada, found themselves caught in the collapse of commodities prices that depressed the market for agricultural equipment. Others, like Dome Petroleum, had recently taken on a large amount of expensive debt to acquire oil assets that suddenly depreciated in value. Still others, like Germany's AEG-Telefunken and Britain's Laker Airways, were undercapitalized or were losers in crowded industries going through severe price competition.

The distress of some corporations had adverse financial consequences for both banks and other firms. Banks experienced a rise in loan losses and nonperforming loans. In Canada, for instance, loan losses tripled and nonperforming loans about doubled in 1982; some three quarters of the losses were on domestic loans. Corporations generally faced a higher risk premium in their borrowing costs. For example, the spread between the rates of interest on German bank deposits and commercial and industrial loans rose from less than 2½ percentage points in August 1981 to over 4 percentage points in October 1982. The bond market in Canada provided further evidence. The spread between the rates of interest on long-term government and corporate bonds rose from around 1 percentage point to

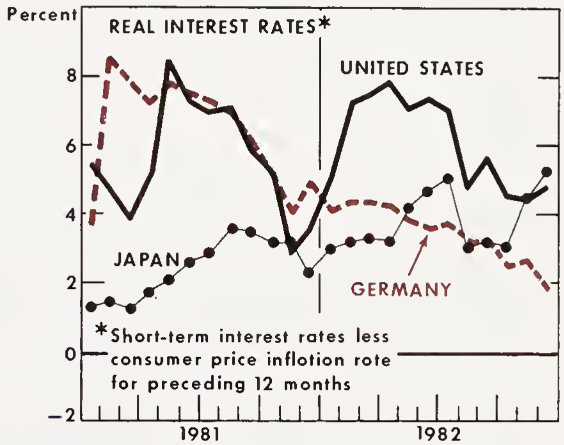
over 2 percentage points in 1982. Thus, corporate distress fed back through higher interest spreads into corporate costs.

Chart 4. INTERNATIONAL ECONOMIC INDICATORS

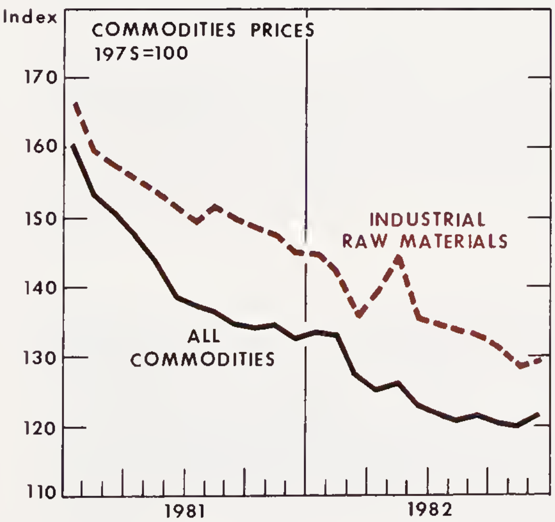
In 1982 the combination of a worldwide recession . . .



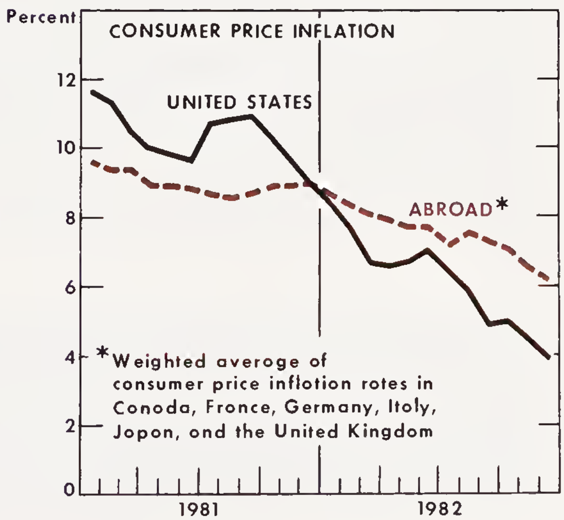
. . . and continued high real interest rates in major countries . . .



. . . not only led to further declines in commodities prices . . .



. . . and a slowdown in inflation but also created conditions of widespread financial strain.



In 1982, financial distress and bankruptcy plagued the private sectors of some less developed countries, too. The most highly publicized of these cases is Grupo Alfa, Mexico's largest private industrial conglomerate. Higher interest rates, the depreciation of the peso, and recession in the United States exposed the weakness of Alfa's strategy of growth through acquisition financed by foreign currency borrowings. Though the steel and petrochemical subsidiaries of the conglomerate made profits, many acquisitions did not. The firm's belatedly reported 1981 results showed a loss of over $200 million. As a consequence, Alfa had problems servicing its debt that led to protracted and complex negotiations with its creditor banks, which together hold $2.4 billion in claims on the group.

Another prominent example was the acute and widespread financial distress in the private sector in Chile. And the amounts of international bank loans to corporate borrowers there were well above what was at stake in Grupo Alfa. Distress among manufacturers in Chile stemmed largely from the government's policy of fixing the exchange rate at 39 pesos to the dollar from the second quarter of 1979 to the second quarter of 1982 and trying to hold it there with extremely high interest rates. But the gains of the dollar against other major currencies in the period turned this "fixed" rate into an effective appreciation of the peso at a time when domestic real wages were rising strongly. Chilean manufacturers competing in world markets found their profit margin crushed and bankruptcies became epidemic. The problems of manufacturers spread to local banks: by December 1982, over a tenth of the Chilean banking system's loans were nonperforming.

The official responses to corporate distress varied across countries. In industrial countries, large corporations like AEG-Telefunken and Dome were offered government assistance in the context of a reorganization of their finances. In most cases, though, business failures were allowed to run their course. In Mexico, the government had granted subsidies to Grupo Alfa in the past but may limit its future aid to helping arrange sell-offs of some of the group's subsidiaries. In Chile, the government in early 1983 responded to financial distress by liquidating three banks and assuming the management of five others.

THE GLOBAL INTERBANK MARKET. The financial climate of 1982—high interest rates and worries about the solvency of traditional business borrowers—created a background of concern in the global interbank market. In such conditions, an unexpected jolt can have serious effects if interbank credit lines are cut back all at once as a safety measure. One disturbance that looked at first as if it

could have broad-ranging spillover effects was the default in July of Banco Ambrosiano Holding of Luxembourg, a nonbank subsidiary of Banco Ambrosiano of Milan. This was the largest failure to hit the Euromarket since the Herstatt collapse in 1974, but in the end the international financial markets managed to absorb the shock without much wider consequences.

Still, the Ambrosiano case did lead commercial bankers to turn a critical eye on their lending to foreign banks. And these concerns were reinforced when the overseas affiliates of Latin American banks in the interbank market came under liquidity pressure in the late summer. The condition of foreign agencies of Mexican and Brazilian banks posed special difficulties. The Federal Reserve took a number of steps to limit the scope of the liquidity problem for these agencies: it pointed out to commercial bankers the difficulty that an end to lending would pose for the overall effort to restructure the debts of these countries; it monitored the cash position of the agencies on a daily basis and coordinated efforts to maintain the integrity of the clearing mechanism.

These disturbances in the interbank market had a number of consequences. Tiering developed; some bank borrowers in the market had to pay unusual premiums that depended on their nationality. And the growth of the interbank market appears to have slowed in 1982, with episodes of outright contraction occurring at times during the year. The extent of this slowdown depends on how the interbank market is measured, but through the first three quarters of 1982 one broad measure of the global interbank market grew at an annual rate of only 7 percent. This was a significant slowdown in a market that had been averaging an annual rate of increase of around 20 percent over the past decade or so, but it did not signal a chain reaction of credit contraction. The slowing occurred in step with a marked shift in the location of interbank business: the reported liabilities of banks abroad to each other declined $13 billion, while the liabilities of international banking facilities and other banks in the United States to banks outside the United States rose $22 billion in the period between December 1981 and September 1982.

PAYMENTS CRISES IN DEBTOR NATIONS. The world recession of 1982 hit the nonoil-developing countries very hard. They had to grapple with two consequences of the downturn, low commodities prices and weak markets for exports. Commodities prices continued to decline throughout 1982 and reached a thirty-year low relative to the prices of manufactured goods. Since the 1 percent

rise in the volume of LDC exports last year did not suffice to overcome these price declines, earnings on foreign sales fell significantly.

In this environment, developing countries reduced their imports sharply—in fact, the aggregate LDC current account deficit fell from $90 billion in 1981 to about $65 billion last year. But these import cutbacks were carried out differently throughout the developing world. In the Far East, reductions were the result of planned policy actions. They were effected relatively smoothly, and Asian countries kept open their access to the international credit markets throughout the year. In consequence, this group of LDCs managed to maintain growth at 4 percent—certainly slower than the average they had achieved over preceding years but still an impressive showing given world economic conditions.

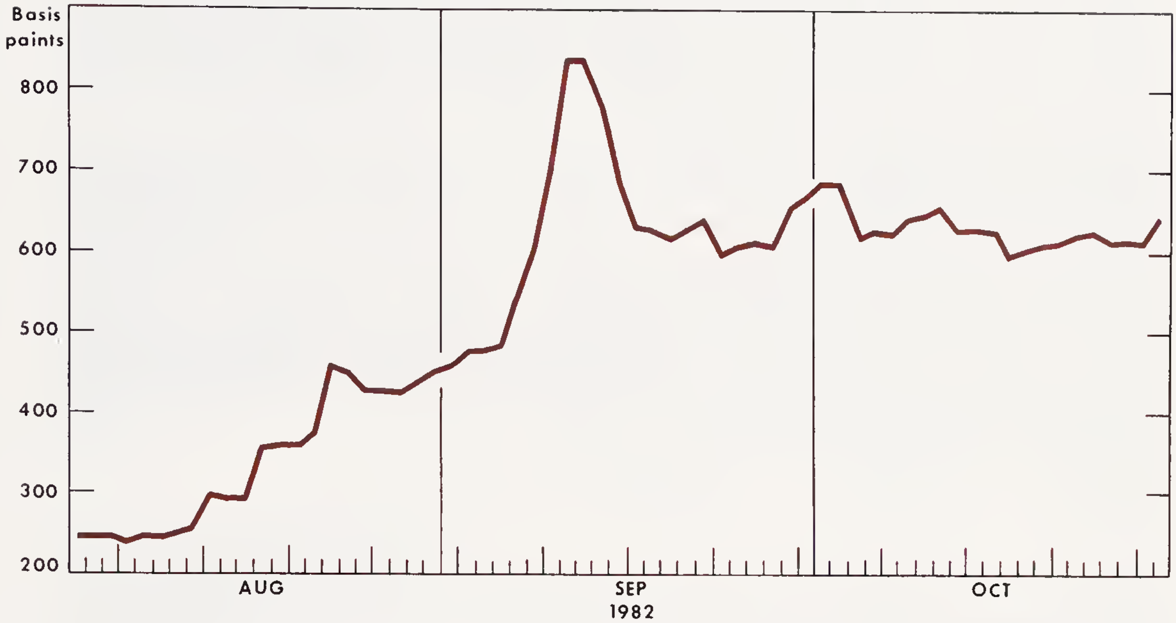
In Latin America, import adjustments were frequently forced by a shutoff in the flow of international credit and the resulting contractions were often drastic. Mexico and Argentina, for instance, compressed their import volumes some 40 percent. This wrenching of Latin American economies was concentrated in the latter half of 1982. Most countries in the region continued to grow and maintained access to international capital until the Mexican payments crisis arose in the late summer. That crisis had broad spillover effects on the willingness of lenders to extend credit to other countries in Latin America. The stoppage of credit flows, in turn, forced severe contractions on economies in the region that reversed most of the growth gains that had taken place earlier in the year.

The payments crises that developed for major debtor countries in 1982 were a consequence of the interplay between the world recession and delayed policy adjustments by the borrowers. The decline in the price of oil cut two ways, reducing the import bill of some major debtors, like Brazil, while lowering the export receipts of others, like Mexico.

The greatest number of these payments disturbances occurred in Eastern Europe and Latin America. Financial difficulties arose for some Eastern European countries, like Hungary, because they were caught in the backwash of problems from the Polish debt crisis of 1981. Other borrowers in Eastern Europe not only were plagued by the coolness of lenders toward the area but also added to their own problems of access to credit through inappropriate financial policies.

In Latin America, where the most serious payments difficulties were concentrated, the strains brought on by international recession were also compounded by national policies last year. Some governments were slow to adjust their expenditure growth or exchange rates in the face of deteriorating world economic conditions.

Chart 5. **SPREAD BETWEEN YIELDS ON MEXICAN AND WORLD BANK BONDS**



Nacional Financiera SA, Mexican State Financing Agency, DM 150 million 11 percent bonds issued March 1982, due 1990. World Bank DM 200 million 8 1/2 percent bonds issued April 1982, due 1992.

The evolution of the Latin American financial crisis last year proceeded through two phases. In the first phase, which ran through July, credit continued to flow to most borrowers: major country banking system claims on Latin America grew at an annual rate of 13 percent in the first half of 1982. The exception was Argentina, to which bank lending rose at only a 4 percent pace in the same period, a consequence of the Falklands war. While no other borrowers experienced a shutdown of funds during this time, creditors were starting to reassess lending to the area. This showed up as an increase in the cost of credit to Latin America as measured by average spreads on syndicated Eurocredits.

The second phase emerged with great rapidity. Domestic capital flight from Mexico in August—in the midst of a changeover of administrations—drained the country's reserves and showed the unsustainable position of Mexico's international payments. Perceptions of risk, as measured by relative yields on international Mexican bonds (Chart 5), climbed rapidly to peak around the time of the

International Monetary Fund (IMF)/World Bank meetings in September. Over a matter of weeks, regular credit lines were cut back and normal flows of funds to Mexico and to other Latin American countries were curtailed. This led to a liquidity crisis for Brazil and aggravated Argentina's existing problems.

The need for immediate liquidity assistance was obvious. Official actions to provide that liquidity support to Mexico, Brazil, and Argentina followed a broadly similar pattern. All three countries received official short-term bridging finance from the United States and other countries, as well as new credit extensions and rollovers of existing loans from banks. This assistance was needed to maintain payments flows until negotiations on programs of medium-term private credits and IMF conditional standby arrangements could be completed. By early 1983, IMF programs for all three countries were in place.

The View at Year-end

The reaction of financial markets to the strains of 1982 suggests that those markets are fragile but not brittle. Official action in various forms was needed, and the timely response of the authorities successfully backstopped the markets at times when their orderly functioning was clearly threatened. By December, the disruptions in the Government securities and bank CD markets had subsided and domestic financial markets were generally operating in an orderly way, though still with lively recollections of earlier difficulties.

The biggest uncertainty overhanging the financial markets at the end of the year concerned the payments position of major debtor countries. While arrangements between these countries and the IMF have been established, further progress depends on responsible actions by all the main participants. The borrowing countries need to implement the stabilization programs they have agreed upon. The banks must continue to lend in the context of IMF programs. And, of major importance, the governments of the main creditor countries must increase the resources of the IMF. Without that financial wherewithal, the Fund will not be able to carry out its critical task of restoring normal flows of funds internationally and prospects for a world recovery will be seriously hurt.

Financial Statements

STATEMENT OF EARNINGS AND EXPENSES FOR THE CALENDAR YEARS 1982 AND 1981 (In dollars)

	1982	1981
Total current earnings	5,092,376,638	4,411,180,562†
Net expenses	199,209,486	178,651,077†
Current net earnings	4,893,167,152	4,232,529,485†
Additions to current net earnings:		
Profit on sales of United States Government securities and Federal agency obligations	27,142,214	—
All other	17,408	76,354,576★
Total additions	27,159,622	76,354,576
Deductions from current net earnings:		
Loss on foreign exchange (net)	37,253,441	78,027,922
Loss on sales of United States Government securities and Federal agency obligations (net)	—	34,318,309
All other	2,282,034	7,415,728†
Total deductions	39,535,475	119,761,959†
Net deductions	12,375,853	43,407,383†
Assessment for the Board of Governors	15,383,800	16,066,500
Net earnings available for distribution	**4,865,407,499**	**4,173,055,602†**
Distribution of net earnings:		
Dividends paid	19,582,450	18,797,197
Transferred to surplus	12,929,400	12,676,500
Payments to United States Treasury (interest on Federal Reserve notes)	4,832,895,649	4,141,581,905†
Net earnings distributed	**4,865,407,499**	**4,173,055,602†**

SURPLUS ACCOUNT

	1982	1981
Surplus—beginning of year	318,683,300	306,006,800
Transferred from net earnings	12,929,400	12,676,500
Surplus—end of year	**331,612,700**	**318,683,300**

★ Includes $75,731,032 of contingent expenses and interest received from the Federal Deposit Insurance Corporation in connection with assumed indebtedness of Franklin National Bank.

† Revised.

STATEMENT OF CONDITION

In dollars

Assets	DEC. 31, 1982	DEC. 31, 1981
Gold certificate account	3,211,909,363	3,160,256,297
Special Drawing Rights certificate account	1,335,000,000	951,000,000
Coin	31,564,944	18,029,133
Total	4,578,474,307	4,129,285,430
Advances	90,470,000	559,300,000
Acceptances held under repurchase agreements	1,479,978,181	194,755,208
United States Government securities:		
Bought outright★	42,656,356,801	37,188,008,336
Held under repurchase agreements	3,704,305,000	3,216,090,000
Federal agency obligations:		
Bought outright	2,811,153,205	2,656,642,982
Held under repurchase agreements	587,795,000	268,910,000
Total loans and securities	51,330,058,187	44,083,706,526
Other assets:		
Cash items in process of collection	1,629,966,743	705,454,435
Bank premises	24,757,834	22,742,263
Due from Federal Deposit Insurance Corporation for indebtedness assumed	285,333,333	428,000,000
All other†	2,509,328,674	2,253,678,634
Total other assets	4,449,386,584	3,409,875,332
Interdistrict settlement account	871,255,883	656,060,339
Total Assets	**61,229,174,961**	**52,278,927,627**

★Includes securities loaned—fully secured	280,200,000	953,835,000

† Includes assets denominated in foreign currencies revalued monthly at market rates.

STATEMENT OF CONDITION

In dollars

Liabilities	**DEC. 31, 1982**	**DEC. 31, 1981**
Federal Reserve notes (net)	44,812,432,506	39,632,632,296
Reserves and other deposits:		
Depository institutions	8,882,084,540	5,075,029,515
United States Treasury—general account	5,033,451,366	4,300,773,123
Foreign—official accounts	170,570,230	266,904,089
Other	586,685,060	540,482,761
Total deposits	14,672,791,196	10,183,189,488
Other liabilities:		
Deferred available cash items	484,833,832	949,428,750
All other★	595,892,027	876,310,493
Total other liabilities	1,080,725,859	1,825,739,243
Total Liabilities	**60,565,949,561**	**51,641,561,027**
Capital Accounts		
Capital paid in	331,612,700	318,683,300
Surplus	331,612,700	318,683,300
Total Capital Accounts	**663,225,400**	**637,366,600**
Total Liabilities and Capital Accounts	**61,229,174,961**	**52,278,927,627**

★Includes exchange translation account balances reflecting the monthly revaluation of outstanding foreign exchange commitments.

Changes in Directors and Senior Officers

CHANGES IN DIRECTORS. In November 1982, the Board of Governors of the Federal Reserve System appointed John Brademas a Class C director of the Bank for the three-year term beginning January 1, 1983 and designated him *Chairman* of the board of directors and *Federal Reserve Agent* for the year 1983. As *Chairman* and *Federal Reserve Agent,* Mr. Brademas, who is President of New York University, New York, N.Y., succeeded Robert H. Knight, who resigned as a Class C director effective December 31, 1982. Mr. Knight, who is a senior partner in the New York law firm of Shearman & Sterling, had been serving as a Class C director since February 1976 and as *Chairman* and *Federal Reserve Agent* since January 1978; he also served as *Deputy Chairman* in 1976 and 1977. As a Class C director, Mr. Brademas succeeded Boris Yavitz, Professor and former Dean of the Graduate School of Business at Columbia University, New York, N.Y., who had been serving as a Class C director since June 1977 and as *Deputy Chairman* since January 1978.

Also in November, the Board of Governors appointed Gertrude G. Michelson *Deputy Chairman* for the year 1983. Mrs. Michelson, who is Senior Vice President of R.H. Macy & Co., Inc., New York, N.Y., has been serving as a Class C director since February 1978. As *Deputy Chairman,* she succeeded Mr. Yavitz. At the same time, the Board of Governors appointed Clifton R. Wharton, Jr., a Class C director of the Bank for the unexpired portion of Mr. Knight's term, ending December 31, 1983. Mr. Wharton is Chancellor of the State University of New York, Albany, N.Y.

In December 1982, member banks in Group 1 elected Alfred Brittain III a Class A director and reelected William S. Cook a Class B director, each for a three-year term beginning January 1, 1983. Mr. Brittain, Chairman of the Board of Bankers Trust Company, New York, N.Y., succeeded Gordon T. Wallis, Chairman of the Board of Irving Trust Company, New York, N.Y., who served as a Class A director from January 15, 1980 through December 31, 1982. Mr. Cook, President of Union Pacific Corporation, New York, N.Y., has been a Class B director since August 6, 1980.

Buffalo Branch. In November 1982, the Board of Governors of the Federal Reserve System appointed M. Jane Dickman a director of the Buffalo Branch for a three-year term beginning January 1, 1983; in addition, the board of directors of this Bank designated her *Chairman* of the Branch board for the year 1983. Miss Dickman, a partner in the accounting firm of Touche Ross & Co., Buffalo, N.Y., has been a director of the Branch since January 1977. As *Chairman* and a Board-appointed Branch

director, she succeeded Frederick D. Berkeley, Chairman of the Board and President of Graham Manufacturing Co., Inc., Batavia, N.Y., who had been a director of the Branch since February 1977 and *Chairman* of the Branch board since January 1979.

At the same time, the Bank's board appointed Frederick G. Ray, who is Chairman of the Board and President of Rochester Savings Bank, Rochester, N.Y., and Donald I. Wickham, who is President of Tri-Way Farms, Inc., Stanley, N.Y., directors of the Buffalo Branch for three-year terms beginning January 1, 1983. On the Branch board, Mr. Ray succeeded Arthur M. Richardson, Chairman of the Board of Security Trust Company, Rochester, N.Y., who had been serving as a Branch director since January 1980. As a Bank-appointed director, Mr. Wickham succeeded Miss Dickman.

CHANGES IN SENIOR OFFICERS. The following changes in official staff at the level of Vice President and above have occurred since the publication of the previous *Annual Report:*

Geri M. Riegger, Vice President and Automation Adviser, resigned from the Bank effective March 17, 1982. Ms. Riegger joined the Bank's staff as an officer in 1977.

Jorge A. Brathwaite, formerly Assistant Vice President, was appointed Vice President, effective April 1, 1982, and assigned to the Government Bond and Safekeeping Function.

Effective June 18, 1982:

Sam Y. Cross, formerly Senior Vice President, was appointed Executive Vice President, with responsibility for the Foreign Group.

Ronald B. Gray, formerly Senior Vice President, was appointed Executive Vice President, with responsibility for the Bank Supervision Function.

Peter D. Sternlight, formerly Senior Vice President, was appointed Executive Vice President, with responsibility for the Open Market Operations Function.

Paul B. Henderson, Jr., formerly Senior Vice President, was appointed Senior Adviser for Strategic Developments and assigned responsibility for advising the President, the First Vice President, and the Planning and Budgetary Control Committee on strategic developments.

Henry S. Fujarski, formerly Vice President, was appointed Senior Vice President and assigned responsibility for the Operations Group (consisting of the Cash Processing, Check Processing, Electronic Payments, and Government Bond and Safekeeping Functions).

Edwin R. Powers, Vice President, formerly assigned to the Government Bond and Safekeeping Function, was assigned responsibility for the Administrative Services Group (consisting of the Accounting, Protection, and Service Functions).

H. David Willey, formerly Vice President, Foreign Relations Function, resigned from the Bank effective July 1, 1982. Mr. Willey joined the Bank's staff in 1964 and became an officer in 1969.

Edward J. Geng was appointed an officer of the Bank with the title of Senior Vice President, effective September 28, 1982, and assigned to the Open Market Operations Function, with responsibility for surveillance of the U.S. Government securities markets. Prior to joining the Bank, Mr. Geng was Senior Vice President of Baer American Banking Corporation. He had previously been an Assistant Vice President of this Bank and Special Assistant to the Secretary of the Treasury.

Cathy E. Minehan, formerly Assistant Vice President, was appointed Vice President, effective October 1, 1982, and assigned responsibility for the Accounting Function.

Irwin D. Sandberg, Vice President, formerly assigned to the Open Market Operations Function, was assigned to the Foreign Relations Function effective October 1, 1982. Effective January 1, 1983, he was appointed Senior Vice President, with responsibility for the Foreign Relations Function.

Effective October 22, 1982:

Ralph A. Cann, III, Vice President, formerly assigned to the Building Services Function, was assigned responsibility for the Service Function.

Paul Meek, Monetary Adviser, Open Market Operations Function, was appointed Vice President and Monetary Adviser and assigned supervisory responsibility for the operations of that Function.

Richard Vollkommer, Vice President, formerly assigned to the Service Function, was assigned responsibility for the Cash Processing Function.

Effective January 1, 1983:

Peter Fousek, formerly Senior Vice President and Director of Research, was appointed Executive Vice President and Director of Research.

Suzanne Cutler, formerly Vice President, was appointed Senior Vice President and assigned responsibility for the Management Planning Group.

Roger M. Kubarych, formerly Vice President and Deputy Director of Research, was appointed Senior Vice President and Deputy Director of Research.

Peter J. Fullen, formerly Assistant Vice President, was appointed Vice President and assigned responsibility for the Data Processing Function.

Richard J. Gelson, formerly Assistant Vice President, was appointed Vice President and assigned to the Research and Statistics Function.

Israel Sendrovic, Vice President, was assigned responsibility for the Automation Group (consisting of the Data Processing and Systems Development Functions).

Herbert W. Whiteman, Jr., Vice President, formerly assigned to the Data Processing Function, was assigned responsibility for the Pricing and Promotion Function.

Susan C. Young, formerly Assistant Vice President, was appointed Vice President and assigned responsibility for the Systems Development Function.

Thomas C. Sloane, Senior Vice President and Senior Adviser, retired on March 1, 1983. Mr. Sloane joined the Bank's staff in 1952 and became an officer in 1959. From August 1979 to March 1980, Mr. Sloane served as alternate to Thomas M. Timlen, First Vice President, who was acting chief executive of the Bank during that period.

MEMBER OF FEDERAL ADVISORY COUNCIL—1983. The board of directors of this Bank selected Lewis T. Preston, Chairman of the Board of Morgan Guaranty Trust Company of New York, New York, N.Y., to serve during 1983 as the member of the Federal Advisory Council representing the Second Federal Reserve District. On the Council, Mr. Preston succeeded Donald C. Platten, Chairman of the Board of Chemical Bank, New York, N.Y., who was this District's member in 1980, 1981, and 1982.

Directors of the Federal Reserve Bank of New York

DIRECTORS

DIRECTORS	Term expires Dec. 31	Class	Group
ALFRED BRITTAIN III Chairman of the Board, Bankers Trust Company, New York, N.Y.	1985	A	1
PETER D. KIERNAN Chairman and President, Norstar Bancorp Inc., Albany, N.Y.	1983	A	2
ROBERT A. ROUGH President, The National Bank of Sussex County, Branchville, N.J.	1984	A	3
WILLIAM S. COOK President, Union Pacific Corporation, New York, N.Y.	1985	B	1
JOHN R. OPEL Chairman of the Board, International Business Machines Corporation, Armonk, N.Y.	1983	B	2
EDWARD L. HENNESSY, JR. Chairman of the Board, Allied Corporation, Morristown, N.J.	1984	B	3
JOHN BRADEMAS, *Chairman and Federal Reserve Agent* President, New York University, New York, N.Y.	1985	C	
GERTRUDE G. MICHELSON, *Deputy Chairman* Senior Vice President, R.H. Macy & Co., Inc., New York, N.Y.	1984	C	
CLIFTON R. WHARTON, JR. Chancellor, State University of New York, Albany, N.Y.	1983	C	

DIRECTORS—BUFFALO BRANCH

M. JANE DICKMAN, *Chairman* Partner, Touche Ross & Co., Buffalo, N.Y.	1985
JOHN ROLLINS BURWELL President, Rollins Container Corp., Rochester, N.Y.	1983
CARL F. ULMER President, The Evans National Bank of Angola, Angola, N.Y.	1983
EDWARD W. DUFFY Chairman of the Board, Marine Midland Bank, N.A., Buffalo, N.Y.	1984
GEORGE L. WESSEL President, Buffalo AFL-CIO Council, Buffalo, N.Y.	1984
FREDERICK G. RAY Chairman of the Board and President, Rochester Savings Bank, Rochester, N.Y.	1985
DONALD I. WICKHAM President, Tri-Way Farms, Inc., Stanley, N.Y.	1985

MEMBER OF FEDERAL ADVISORY COUNCIL—1983

LEWIS T. PRESTON Chairman of the Board, Morgan Guaranty Trust Company of New York, New York, N.Y.	1983

Officers of the Federal Reserve Bank of New York

ANTHONY M. SOLOMON, *President*
THOMAS M. TIMLEN, *First Vice President*

SAM Y. CROSS, *Executive Vice President*
Foreign Group

PETER FOUSEK, *Executive Vice President and Director of Research*
Research and Statistics

RONALD B. GRAY, *Executive Vice President*
Bank Supervision

JAMES H. OLTMAN, *General Counsel*

PETER D. STERNLIGHT, *Executive Vice President*
Open Market Operations

AUDIT

JOHN E. FLANAGAN, *General Auditor*
ROBERT J. AMBROSE, *Assistant General Auditor*
LEON R. HOLMES, *Assistant General Auditor*
WILLIAM M. SCHULTZ, *Adviser*
LORETTA G. ANSBRO, *Manager, Auditing Department*
H. ALLAN VIRGINIA, *Manager, Audit Analysis Department*

ADMINISTRATIVE SERVICES GROUP

EDWIN R. POWERS, *Vice President*

ACCOUNTING

CATHY E. MINEHAN, *Vice President*
JOHN M. EIGHMY, *Assistant Vice President*
DONALD R. ANDERSON, *Manager, Accounting Department*
KATHLEEN A. O'NEIL, *Manager, Accounting Department*

PROTECTION

ROBERT V. MURRAY, *Assistant Vice President*

SERVICE

RALPH A. CANN, III, *Vice President*
RONALD E. LONG, *Assistant Vice President*
MATTHEW C. DREXLER, *Manager, Building Planning Department*
JOSEPH C. MÈEHAN, *Manager, Building Operating Department*
JASON M. STERN, *Manager, Records, Printing, and Postal Services Department*
RUTH ANN TYLER, *Manager, Service Department*

AUTOMATION GROUP

ISRAEL SENDROVIC, *Vice President*

DATA PROCESSING

PETER J. FULLEN, *Vice President*
HOWARD F. CRUMB, *Assistant Vice President*
GEORGE LUKOWICZ, *Assistant Vice President*
RONALD J. CLARK, *Manager, Communications Planning Department*
JAMES H. GAVER, *Manager, Analytical Computer Department and Analysis and Administrative Support Staff*
PETER M. GORDON, *Manager, Computer Operations Support Department*
JOHN C. HEIDELBERGER, *Manager, Telecommunications Operations Department*
KENNETH M. LEFFLER, *Manager, Technical Services Department*
RICHARD P. PASSADIN, *Manager, General Purpose Computer Department*
JEROME P. PERLONGO, *Manager, Computer Operations Support Department*

SYSTEMS DEVELOPMENT

SUSAN C. YOUNG, *Vice President*
OM P. BAGARIA, *Manager, Funds Transfer Systems Staff*
BARBARA R. BUTLER, *Manager, Data Systems Department*
VIERA A. CROUT, *Manager, Operations Systems Department*
PATRICIA Y. JUNG, *Manager, Data Systems Department*
HARRY Z. MELZER, *Manager, Common Systems Department*

Officers *(Continued)*

BANK SUPERVISION

RONALD B. GRAY, *Executive Vice President*
A. MARSHALL PUCKETT, *Vice President*
FREDERICK C. SCHADRACK, *Vice President*
*NEAL M. SOSS, *Vice President*
STEPHEN G. THIEKE, *Vice President*
GEORGE R. JUNCKER, *Chief Compliance Examiner*
LEON KOROBOW, *Assistant Vice President*
ROBERT A. O'SULLIVAN, *Chief Financial Examiner*
BENEDICT RAFANELLO, *Adviser*
WILLIAM L. RUTLEDGE, *Assistant Vice President*
JAMES P. BARRY, *Assistant Chief Examiner*
JOHN M. CASAZZA, *Assistant Chief Examiner*
FRANKLIN T. LOVE, *Manager, Supervision Support Department*
A. JOHN MAHER, *Assistant Chief Examiner*
THOMAS P. MCQUEENEY, *Assistant Chief Examiner*
GERALD P. MINEHAN, *Manager, Foreign Banking Applications Department*
DONALD E. SCHMID, *Manager, Bank Analysis Department*
BETSY BUTTRILL WHITE, *Manager, Banking Studies Department*

ECONOMIC ADVISER

RICHARD G. DAVIS, *Senior Economic Adviser*

FOREIGN GROUP

SAM Y. CROSS, *Executive Vice President*

FOREIGN EXCHANGE

MARGARET L. GREENE, *Vice President*
CHARLES M. LUCAS, *Assistant Vice President*
PETER S. HOLMES, *Foreign Exchange Trading Officer*
PATRICIA H. KUWAYAMA, *Manager, Foreign Exchange Department*

FOREIGN RELATIONS

IRWIN D. SANDBERG, *Senior Vice President*
JOHN HOPKINS HEIRES, *Adviser*
GEORGE W. RYAN, *Assistant Vice President*
GEORGE R. ARRINGTON, *Manager, Foreign Relations Department*
GEORGE H. BOSSY, *Manager, Foreign Relations Department*
FRANCIS J. REISCHACH, *Manager, Foreign Relations Department*

**On leave of absence.*

LEGAL

JAMES H. OLTMAN, *General Counsel*
ERNEST T. PATRIKIS, *Deputy General Counsel*
DON N. RINGSMUTH, *Assistant General Counsel*
DONALD L. BITTKER, *Assistant Counsel*
ROBERT N. DAVENPORT, JR., *Assistant Counsel*
JEFFREY F. INGBER, *Assistant Counsel*
JOYCE E. MOTYLEWSKI, *Assistant Counsel*
BRADLEY K. SABEL, *Secretary and Assistant Counsel*
MINDY R. SILVERMAN, *Assistant Counsel*
WALKER F. TODD, *Assistant Counsel*
RALEIGH M. TOZER, *Assistant Counsel*

LOANS AND CREDITS

CHESTER B. FELDBERG, *Vice President*
ROBERT T. FALCONER, *Assistant Vice President*
GARY HABERMAN, *Manager, Credit and Discount Department*
ROBERT C. PLOWS, *Manager, Credit and Discount Department*

MANAGEMENT PLANNING GROUP

SUZANNE CUTLER, *Senior Vice President*

PERSONNEL

ROBERTA J. GREEN, *Vice President*
*TERRENCE J. CHECKI, *Assistant Vice President*
CARL W. TURNIPSEED, *Assistant Vice President*
MICHAEL J. LANGTON, *Manager, Personnel Department*
CLIFFORD N. LIPSCOMB, *Manager, Personnel Department*
ROBERT C. SCRIVANI, *Manager, Personnel Department*

PLANNING AND CONTROL

ROBERT M. ABPLANALP, *Assistant Vice President*
AARON S. DRILLICK, *Manager, Management Information Department*

OPEN MARKET OPERATIONS

PETER D. STERNLIGHT, *Executive Vice President*
EDWARD J. GENG, *Senior Vice President*
PAUL MEEK, *Vice President and Monetary Adviser*
MARY R. CLARKIN, *Assistant Vice President*
EDWARD J. OZOG, *Assistant Vice President*

Officers *(Continued)*

Joan E. Lovett, *Manager, Securities Department*

Christopher J. McCurdy, *Research Officer and Senior Economist*

Ann-Marie Meulendyke, *Manager, Securities Department*

OFFICE OF THE PRESIDENT

Barbara L. Walter, *Assistant to the President*

OPERATIONS GROUP

Henry S. Fujarski, *Senior Vice President*

CASH PROCESSING

Richard Vollkommer, *Vice President*

Joseph P. Botta, *Assistant Vice President*

Martin P. Cusick, *Manager, Currency Verification Department*

*Joseph F. Donnelly, *Manager*

Charles E. Rockey, *Manager, Paying and Receiving Department*

Anthony N. Sagliano, *Manager, Currency Verification Department*

CHECK PROCESSING

James O. Aston, *Vice President*

†Robert C. Thoman, *Vice President (Utica Office)*

Louis J. Brendel, *Regional Manager (Jericho Office)*

Fred A. Denesevich, *Regional Manager (Head Office)*

Whitney R. Irwin, *Regional Manager (Cranford Office)*

John F. Sobala, *Assistant Vice President*

Steven J. Garofalo, *Operations Analysis Officer*

Donald R. Moore, *Manager, Check Processing Department*

Thomas E. Nevius, *Manager, Check Adjustment Department*

Janet L. Wynn, *Operations Analysis Officer and Assistant Secretary*

ELECTRONIC PAYMENTS

Henry F. Wiener, *Assistant Vice President*

Robert W. Dabbs, *Manager, Electronic Payments Department*

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